

Service Date: April 26, 1984

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER of the Application of) UTILITY DIVISION
the Combined Hungry Horse Water)
Company to Increase Rates and Charges) DOCKET NO. 82.12.76
to Consumers in its Hungry Horse,)
Montana Service Area.) ORDER NO. 4965a

ORDER REQUIRING INVESTOR REIMBURSEMENT
TO UTILITY FOR PLANT INVESTMENT

On December 8, 1982, Combined Hungry Horse Water Company filed an application for an interim increase of approximately \$8,700. The increase was requested primarily to allow the utility to pay the outstanding balance on its electric power bill and to allow it to remain current on future power bills. The Commission granted the interim increase as requested in Interim Rate Order No. 4965 dated March 7, 1983.

It is a general principle of utility rate regulation that investor owned utilities are entitled to rates sufficient to cover the utilities expenses of operations, including depreciation and taxes and to allow an opportunity to recover a reasonable rate of return on investment in plant dedicated to public use. The investor and not the ratepayer is responsible for acquisition of funds to acquire the plant necessary to provide the utility service. Consequently, it is not the responsibility of the ratepayers through their rates to generate in advance the funds necessary to acquire utility plant. Rather it is the responsibility of the investors to make that investment.

They are then allowed to recover that investment over the life of the plant from the ratepayers through an allowance for depreciation in the authorized rates .

In the case at hand, the interim rates authorized were clearly designed to cover the utilities operating expenses including depreciation and particularly covering the electricity expenses and were not intended to finance the acquisition of utility plant.

Nonetheless, it has come to the Commission's attention that revenues from the authorized interim rates have been diverted away from application to operating expenses including electricity expenses and have instead been applied to the acquisition of a new 40 horse power pump which is a plant item.

Such a diversion of revenues is entirely improper. The pump, as a plant item should have been acquired through investor funds rather than ratepayer funds. The investors would then be entitled to request rates that would generate revenues sufficient to recover that investment over the life of the pump.

The diversion of ratepayer revenues away , rom operating expenses and toward a capital investment in plant not only violates basic rate making principles but has also put the utility in jeopardy of losing its electric service and therefore losing its ability to provide water service which is depended upon by its customers. Consequently, the Commission finds that the utility investors should be required to immediately reimburse the utility for the direct and indirect costs of the 40 horse power pump installed on or about April 9, 1984. Because it appears that the utility is

in imminent danger of losing its electric service, the Commission further finds that the proceeds from the investor reimbursement should be applied first to any outstanding charges for electric service.

NOW THEREFORE IT IS ORDERED THAT:

1. The investors of Combined Hungry Horse Water Company immediately reimburse the utility for the direct and indirect cost of the 40 horse power pump installed on or about April 9, 1984.

2. The management of Combined Hungry Horse Water Company apply the proceeds of the reimbursement first against any outstanding charges for electric service received.

3. The management of Combined Hungry Horse Water Company notify the Commission when the provisions of paragraphs 1 and 2 have been complied with.

4. Failure to comply with the provisions of this order could result in appropriate action pursuant to 69-3-209 and the Commission bringing 69-3-110, MCA.

DONE AND DATED this 26th day of April, 1984 by a vote of 5 - 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

THOMAS J. SCHNEIDER, Chairman

JOHN B. DRISCOLL, Commissioner

HOWARD L. ELLIS, Commissioner

CLYDE JARVIS, Commissioner

DANNY OBERG, Commissioner

ATTEST:

Iris Basta, Acting Secretary
Madeline L. Cottrill
Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten days. See 38.2.4806, ARM.